

## Message Text

PAGE 01 MADRID 02659 01 OF 02 190907Z

12

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TO SECSTATE WASHDC PRIORITY 1605

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AMEMBASSY PARIS

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EC BRUSSELS 1054

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 2659

E.O. 11652: IXE

TAGS: PFOR, PINT, ECON, SP, PO, MO

SUBJ: POLITICAL AND ECONOMIC TRENDS DURING FIRST  
QUARTER

SUMMARY; DOMESTIC SCENE DURING FIRST QUARTER WAS  
TROUBLED BY CONTINUATION OF STRIKES, PETITIONS, DEMON-  
STRATIONS, AND OTHER PROTEST ACTIONS THAT PEAKED DURING  
FEBRUARY. RESPONSE OF GOVERNMENT, CONCERNED OVER BOTH  
ACCUSATIONS OF INDECISIVENESS AND TURMOIL IN PORTUGAL,  
HAS BEEN TO TIGHTEN SCREWS ON PRESS, OPPOSITION,  
INCREASINGLY POLITICIZED CIVIC AND CULTURAL ORGANIZATIONS,  
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PAGE 02 MADRID 02659 01 OF 02 190907Z

AND EVEN CHURCH. REGIME GROUPS HAVE BEGUN TRYING TO  
FORM POLITICAL ASSOCIATIONS THOUGH PUBLIC HAS IN  
GENERAL RESPONDED LISTLESSLY AND DOUBTS PERSIST AS TO  
HOW MUCH FREEDOM OF ACTION ASSOCIATIONS WILL BE ALLOWED.

THREE MILITARY MINISTERS PUBLICLY WARNED AGAINST POLITICAL ACTIVITIES BY ACTIVE DUTY MILITARY. NOTWITHSTANDING SIGNS OF GREATER GOVERNMENT INFLEXIBILITY, PRIME MINISTER HAS REPEATEDLY REAFFIRMED HIS COMMITMENT TO LIBERALIZATION WITHIN PRESENT SYSTEM AND IN MARCH CABINET SHAKEUP REMOVED TWO MINISTERS WHO HAVE IMPEDED HIS PROGRAM. IN BACKGROUND OF CURRENT POLITICAL EFFERVESCENCE WAS CONTINUED UNCERTAINTY OVER FRANCO'S HEALTH AND EXPECTANCY OF CHANGE. SPAIN'S 1974 ECONOMIC PROBLEMS CONTINUED INTO 1975. THIS INCLUDED REAL UNEMPLOYMENT RATE CLOSE TO 4 PERCENT, INFLATION RATE OF MORE THAN 20 PERCENT, AND DECLINING RESERVES. MOROCCO AND PORTUGAL REMAINED MOST IMMEDIATE AND TROUBLESOME FOREIGN POLICY CONCERNS. DISPUTE WITH MOROCCO TOOK ON ADDED DIMENSION WITH HASSAN'S UNCHALLENGE TO LEGITIMACY OF SPANISH RULE IN NORTH AFRICAN PRESIDIOS. SPANISH WATCHED LEFTWARD SLIDE IN PORTUGAL WITH GROWING CONCERN, THOUGH IN STATE-TO-STATE RELATIONS GOS CAN CLAIM SUCCESS IN PURSUING CORRECT, HANDS-OFF RELATIONSHIP. NEGOTIATIONS WITH UNITED STATES CONTINUED, WITH ISSUES BECOMING CLEARER, BUT APPARENT WILL ON BOTH SIDES TO ACHIEVE AGREEMENT. END SUMMARY.

1. FRANCO-TRUE STATE OF FRANCO'S HEALTH REMAINS MAJOR POLITICAL UNKNOWN CONTRIBUTING TO PREVAILING ATMOSPHERE OF POLITICAL UNCERTAINTY. SINCE RECOVERING FROM JULY 1974 HEALTH CRISIS, FRANCO HAS MAINTAINED SOMEWHAT CURTAILED ROUTINE, AND THERE ARE RECURRING RUMORS OF CRITICAL HEALTH PROBLEMS. BUT HE IS STILL PRESIDING OVER BIWEEKLY CABINET MEETINGS, CONDUCTING REGULAR AUDIENCES, MEETING FREQUENTLY WITH MINISTERS, AND MAKING MOST OF VITAL DECISIONS. GENERAL IMPRESSION OF THOSE HAVING CONTACTS WITH HIM DURING PAST THREE MONTHS IS THAT HE IS ALERT AND THAT HIS CONDITION APPEARS GENERALLY GOOD FOR AN 82-YEAR OLD. HOWEVER, FRANCO'S ADVANCED AGE AND UNCERTAIN HEALTH, AS WELL AS CONFIDENTIAL

PAGE 03 MADRID 02659 01 OF 02 190907Z

FRUSTRATIONS AND CONCERNS OF THOSE DESIRING MORE RAPID CHANGE, HAS ENCOURAGED INCREASINGLY FREQUENT PRESS AND PUBLIC DISCUSSIONS HIGHLIGHTING DESIRABILITY OF GOING AHEAD WITH SUCCESSION NOW WHILE CONDITIONS PROPITIOUS FOR ORDERLY CHANGE. WE CANNOT KNOW WITH CERTAINTY STATE OF FRANCO'S HEALTH, WHICH IS KEY TO WHETHER OR NOT HE WILL STEP DOWN SOON. MUCH OF DISCUSSIONS OF POSSIBLE EARLY TRANSFER OF POWER MAY REPRESENT EITHER WISHFUL THINKING OR CAUTIOUSLY PHRASED APPEALS TO FRANCO TO STEP DOWN NOW. AS QUARTER ENDED, THERE WERE NO FIRM INDICATIONS TURNOVER WAS IMMINENT.

2. POLITICAL LIBERALIZATION. DECEMBER APPROVAL OF

ARIAS'S POLITICAL ASSOCIATIONS STATUTE WITHIN CONFINES OF NATIONAL MOVEMENT SET IN MOTION A FLURRY OF ACTIVITY AMONG GROUPS LOYAL TO THE REGIME AND AS MANY AS 14 EMBRYONIC ASSOCIATIONS ARE IN PROCESS OF FORMING. REGISTRATION REQUIREMENT OF 25 THOUSAND SIGNATURES COVERING AT LEAST 15 PROVINCES IS EXPECTED TO KEEP DOWN NUMBER OF ASSOCIATIONS ULTIMATELY LEGALIZED. ASSOCIATION STATUTE, HOWEVER, STIRRED LITTLE ENTHUSIASM AMONG OPPOSITION SOCIALIST AND CHRISTIAN DEMOCRATIC GROUPS, WHO REJECTED IT IN PRINCIPLE, AND AMONG SUBSTANTIAL PORTION OF NON-IDEOLOGICAL CENTER AND CENTER-RIGHT WHO SUSPECTED ASSOCIATIONS WOULD HAVE LITTLE FREEDOM OF ACTION AND THAT NO REAL CHANGE POSSIBLE AS LONG AS FRANCO RULES.

3. THESE GROUPS CLAIMED TO HAVE SEEN THEIR SUSPICIONS

CONFIRMED WHEN AN ATTEMPT BY FORMER MINISTER MANUEL FRAGA IRIBARNE TO FORM A REFORM-MINDED ASSOCIATION OF THE CENTER ENDED IN IMPASSE IN LATE FEB. FRAGA'S PROBLEMS STEMMED FROM HIS PROPOSED PLATFORM, WHICH CALLED FOR SEVERAL FAR-REACHING CONSTITUTIONAL CHANGES, SUCH AS DIRECT UNIVERSAL SUFFRAGE AND PLURALISTIC POLITICAL AND TRADE UNION SYSTEMS. ALTHOUGH FRAGA THOUGHT HE HAD AT LEAST TACIT APPROVAL FROM PRIME MINISTER ARIAS, HIS PROGRAM WAS OBJECTIONABLE TO FRANCO HIMSELF AND FIGHTIST WHO BASICALLY REJECT ASSOCIATION IDEA. MOREOVER, APPOINTMENT OF EMILIO ROMERO, INFLUENTIAL CONSERVATIVE JOURNALIST AND CONFIDANT OF FRANCO, TO CONFIDENTIAL

PAGE 04 MADRID 02659 01 OF 02 190907Z

HEAD NATIONAL MOVEMENT'S EXTENSIVE PRESS AND RADIO NET WAS VIEWED BY MANY LIBERALIZERS, INCLUDING FRAGA, AS CLEAR SIGNAL THAT NATIONAL MOVEMENT WOULD REMAIN BIASED IN FAVOR OF RIGHTIST-DOMINATED ASSOCIATIONS. WHILE ASSOCIATIONS ARE SLOWLY FORMING THERE IS LITTLE EVIDENCE OF WIDE-SPREAD PUBLIC ENTHUSIASM, A LACK DEMONSTRATED BY DIFFICULTY NASCENT ASSOCIATIONS HAVE FACED IN GAINING NECESSARY 25,000 SIGNATURES AS WELL AS FINANCING.

4. CABINET RESHUFFLE. FEB 25 RESIGNATION OF FORMER LABOR MINISTER, LICINIO DE LA FUENTE CAUSED A TWO-WEEK LONG CABINET CRISIS AND LED TO HIS REPLACEMENT AND THAT OF FOUR OTHER MINISTERS, WITH INDICATIONS ARIAS HAS NEARLY RESIGNED TO DISAGREEMENT WITH FRANCO. DE LA FUENTE RESIGNED BECAUSE CABINET DECLINED TO APPROVE DECREE WHICH WOULD HAVE GRANTED MODIFIED RIGHT TO STRIKE. ARIAS REPLACED DE LA FUENTE WITH YOUNG REGIME LIBERAL FERNANDEO SUAREZ GONZALEZ AND ALSO REPLACED MINISTERS OF INDUSTRY, COMMERCE, JUSTICE AND NATIONAL MOVEMENT. REPLACEMENT OF LATTER TWO WAS SOMETHING OF VICTORY FOR ARIAS, INASMUCH AS MOVIMIENTO MINISTER UTRERA, AND TO LESSER EXTENT MINISTER OF JUSTICE RUIZ JARABO, HAD BEEN ABSTRACTING ARIAS' FEB 12

LIBERALIZATION PROGRAM. NEW CABINET INCLUDES GREATER NUMBER OF AIRAS' OWN PERSONAL CHOICES THAN ITS PREDECESSOR AND SHOULD SHOW GREATER DEGREE OF TEAMWORK AND MORE SUPPORT FOR PRIME MINISTER'S CAUTIOUS LIBERALIZING POLICIES WHICH UP TO NOW HAS SHOWN LITTLE OR NO PROGRESS IN ANY OF ITS ASPECTS.

5. DESPITE ARIAS' REPEATED REAFFIRMATIONS OF COMMITMENT TO HIS LIBERALIZATION PROGRAM, RECENT MONTHS HAVE BEEN CHARACTERIZED BY GREATER GOVERNMENT RIGIDITY AND TIGHTER CONTROLS ON DISSENTERS. GREATER REPRESSIVENESS AND HAS TAKEN FORM OF MORE FREQUENT SANCTIONS AGAINST PUBLICATIONS AND INDIVIDUAL JOURNALISTS, CLOSURE OF UNIVERSITY OF VALLADOLID, SUSPENSION, FINES, OR CLOSURE OF SOME DISSENTING CULTURAL AND CIVIC ORGANIZATIONS, AND RENEWED SANCTIONS AGAINST INDIVIDUAL SPANISH OPPOSITIONISTS, SUCH AS WITHDRAWAL OF PASSPORTS. GREATER FIRMNESS IN THESE REGARDS IS GOVERNMENT'S RESPONSE TO INCREASED PUBLIC EFFERVESCENCE AND SEEMS TO HAVE BEEN ENCOURAGED BY DETERIORATING SITUATION IN NEIGHBORING PORTUGAL  
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PAGE 05 MADRID 02659 01 OF 02 190907Z

AND BY INTERNAL CRITICISMS THAT GOVT WAS DRIFTING. MINISTER OF INTERIOR GARCIA HERNANDEZ, WHO IS ORCHESTRATING CAMPAIGN TO TIGHTEN CONTROLS, HAS EMERGED AS MAJOR POWER IN GOVT. GOVT INFLEXIBILITIES HAS BEEN ONE FACTOR IN RENEWED TENSION BETWEEN CHURCH AND STATE. BISHOPS' CONFERENCE HAS PRODUCED DOCUMENT ON "RECONCILIATION" WHICH ATTACKS SPANISH GOVT ON NUMBER OF FRONTS. SUBSEQUENTLY, GOS PROVOKED SHARP OUTCRY BY BANNING A PREVIOUSLY AUTHORIZED CHURCH ASSEMBLY IN A MADRID WORKING CLASS DISTRICT WHICH WAS TO HAVE BEEN PRESIDED OVER BY LIBERAL MADRID CARDINAL ENRIQUE TARANCON. PUBLIC POLITICAL EBULLIENCE HAS PERSISTED IN SPITE OF TIGHTENED GOVT CONTROLS. SIGNIFICANT TREND IN ATMOSPHERE OF POLITICAL TRANSIENCE AND EXPECTANCY IS INCREASING NUMBER OF INDIVIDUAL SPANIARDS OR GROUPS WHO ARE OPENLY WILLING TO PETITION, TO PROTEST OR TO DEMONSTRATE IN SUPPORT OF THEIR POLITICAL CONVICTIONS. PRESS REMAINS OUTSPOKEN REGARDING NEED FOR CHANGE.

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PAGE 01 MADRID 02659 02 OF 02 181705Z

12  
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C O N F I D E N T I A L SECTION 2 OF 2 MADRID 2659

6. THE MILITARY. DESPITE ALLEGATIONS OF COMMUNIST-DOMINATED JUNTA DEMOCRATICA THAT IT IS GAINING RECRUITS AMONG MILITARY, AND PROBABILITY THAT THERE IS A DEGREE OF CAREER FRUSTRATION , BULK OF MILITARY APPEARS TO MAINTAIN TRADITIONAL DISCIPLINE AND EVINCES FEW SIGNS OF DEVELOPING PORTUGUESE-TYPE ARMED FORCES MOVEMENT. HIGHLY PUBLICIZED FEB ARREST OF TWO ARMY OFFICERS IN BARCELONA FOR INDISCIPLINE HAS BEEN WIDELY INTERPRETED AS EVIDENCE OF SPREADING RADICALISM AND DISSENSION WITHIN MILITARY. BUT MORE LIKELY AFFAIR IS ANOTHER INDICATION THAT MILITARY, WHILE NOT RADICALIZED, IS BECOMING MORE "POLITICIZED" IN SENSE THAT OFFICERS OF MIDDLE AND LOWER GRADES ARE EXPERIENCING SAME ANXIETIES AS MANY CIVILIAN MIDDLE  
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PAGE 02 MADRID 02659 02 OF 02 181705Z

CLASS COUNTERPARTS OVER UNCERTAINTIES OF SUCCESSION AND COURSE OF POST-FRANCO POLITICAL DEVELOPMENT, WHILE ALSO HAVING PROFESSIONAL FRUSTRATIONS. KEY CONCERN IS ABOUT WHAT MAY BE MILITARY'S ROLE IN FUTURE SUCCESSION PROCESS. MILITARY APPEARS TO MAINTAIN ITS ESSENTIAL DISCIPLINE, BUT NEWER GENERATION OF OFFICERS TOO WELL EDUCATED AND TOO MUCH EXPOSED TO OUTSIDE INFLUENCES TO SIMPLY IGNORE CRITICAL POLITICAL TRENDS. SERVICES MINISTERS' JAN WARNING TO MILITARY TO REFRAIN FROM POLITICAL ACTIVITY GENERALLY PERCEIVED AS MINISTERS INTENDED-I.E., NO MILITARY PARTICIPATION IN ASSOCIATIONS. SOME OBSERVERS, PARTICULARLY IN FOREIGN PRESS AND IN OPPOSITION GROUPS SUCH AS JUNTA DEMOCRATICA, SAW THESE STATEMENTS AS SENIOR MILITARY OFFICERS CONCERN OVER POLITICAL ACTIVITIES OF JUNIOR OFFICERS. EMBASSY CONSENSUS IS THAT WHILE ALL OFFICERS SHOWING MORE PUBLIC

EVIDENCE OF INTEREST IN POLITICS, NO REAL EVIDENCE OF  
SERIOUS POLITICAL ORGANIZING AMONG ANY GROUP OF MILITARY.

7. LABOR-THERE HAS BEEN CONTINUATION OF EXTENSIVE  
STRIKE WAVE WHICH BEGAN LAST FALL, AND WHICH ONLY  
APPEARS TO HAVE TAPERED OFF WITHIN PAST FEW WEEKS.  
GOVERNMENT REACTED MILDLY AT FIRST, BUT LATER A HARDENING  
OF GOVT'S POSITION WAS EVIDENT, WHICH--ALONG WITH  
SEASONAL FACTOR--MAY HAVE HAD AN INHIBITING EFFECT AND  
CONTRIBUTED TO RECENT DIMINUTION OF STRIKES. QUESTION  
OF GOVERNMENT GRANTING A MODIFIED RIGHT TO STRIKE  
REMAINS IN SUSPENSE IN LIGHT OF RECENT CABINET  
RESHUFFLE AND A NEW DRAFT LAW OF LABOR RELATIONS WHICH  
EMERGED IN JAN IN MUCH EMASCULATED FORM IS NOW  
BEING DEBATED IN A CORTES COMMITTEE.

8. THE OPPOSITION-MAR 28 KILLING BY ETA OF A POLICE  
INSPECTOR IN SAN SEBASTIAN CLIMAXED AN INCREASE IN  
TERRORIST ACTIONS BY ETA IN BASQUE COUNTRY WHICH  
INCLUDED SERIES OF BOMBINGS FOLLOWED BY WAVE OF ARRESTS.  
ELSEWHERE JUNTAS DEMOCRATICA STILL MANIPULATED BY  
SANTIAGO CARRILLO'S PCE, HAS BEEN ACTIVE IN SEEKING TO  
CAPTURE INTERNATIONAL ATTENTION, MOST NOTABLY BY MEANS  
OF A JAN SEMINAR IN BRUSSELS ON SPAIN, A MAR  
VISIT BY PROMINENT JUNTA MEMBERS TO THE COUNCIL OF  
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PAGE 03 MADRID 02659 02 OF 02 181705Z

EUROPE IN STRASBOURG, AND A LATE MAR VISIT BY JUNTA  
MEMBER CALVO SERER TO THE U.S. JUNTA HOWEVER HAS HAD  
NO SUCCESS DURING PAST SEVERAL MONTHS IN GAINING  
ALLEGIANCE OF OTHER OPPOSITION POLITICAL GROUPS AND HAS  
LOST SUPPORT OF THE CARLISTS, ALTHOUGH IT HAS BEEN  
ATTRACTING SOME INDIVIDUAL OPPOSITIONISTS. JUNTA ALSO  
CLAIMS CRITICAL SUCCESSES IN ORGANIZING ITSELF AT  
REGIONAL AND MUNICIPAL LEVEL, THOUGH EVIDENCE FOR SUCH  
CLAIM IS SCARCE. ON OTHER HAND, VARIOUS IMPORTANT  
CHRISTIAN DEMOCRATIC, SOCIALIST, AND REGIONAL POLITICAL  
PARTIES OUTSIDE OF JUNTA, CONTINUE TO MEET TO DECIDE  
COMMON POLICY VIS-A-VIS JUNTA, AND THERE NOW APPEARS  
TO BE INCREASED PROSPECTS THAT THEY MAY SOON CONSTITUTE  
THEMSELVES INTO A FORMAL OPPOSITION COALITION RIVALING  
THE JUNTA.

9. FOREIGN POLICY TRENDS. MOROCCO AND PORTUGAL  
REMAINED SPAIN'S MOST TROUBLESOME FOREIGN POLICY  
CONCERNS. RELATIONS WITH MOROCCO DETERIORATED SHARPLY  
WITH HASSAN'S DECISION TO QUESTION FORMALLY IN UN  
COMMITTEE OF 24 SPANISH SOVEREIGNTY OVER NORTH AFRICAN  
PRESIDIOS. AT SAME TIME, TENSIONS MUTUALLY HEIGHTENED  
BY CONTINUED MOROCCAN DETENTIONS OF SPANISH FISHING  
VESSELS AND SPAIN'S ONGOING PREPARATIONS FOR ULTIMATE  
INDEPENDENCE OF SAHARA, INCLUDING COMPLETION OF

CENSUS AND FORMATION OF SAHARAN PRO-INDEPENDENCE  
POLITICAL PARTY.

10. SPANISH, HOWEVER, HAVE QUIETLY POSTPONED ORIGINAL INTENTIONS TO CONDUCT REFERENDUM IN SAHARA UNTIL ICJ HAS ISSUED ADVISORY OPINION AN UN HAS TAKEN SOME ACTION ON IT. GOS APPROACH ON SAHARA ISSUE, AND SO FAR ON PRESIDIOS QUESTION, CONTINUES TO BE RELIANCE ON UN PROCEDURES AND CAREFUL ADHESION TO UN PRESCRIPTIONS. SPANISH NOW FEEL PRESIDIO ISSUE, WHICH TOUCHES NATIONALISTIC NERVE UNAFFECTED BY SAHARA ISSUE, IS FOR TIME BEING SAFELY BOTTLED-UP IN UN MACHINERY. THERE IS CONSIDERABLE DOUBT THAT ANY SPANISH GOVT COULD ABIDE BY ANY UN RULING REQUIRING SURRENDER OF PRESIDIOS, HOWEVER.

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PAGE 04 MADRID 02659 02 OF 02 181705Z

11. FEB 8 DISPATCH OF WAR SHIPS AND MARINES TO CEUTA AND MELILLA WAS BOTH DEMONSTRATION TO MOROCCO OF GOS INTENT TO DEFEND PRESIDIOS AND GESTURE OF FIRMNESS FOR DOMESTIC CONSUMPTION AT TIME OF GROWING CRITICISM OF ARIAS' GOVTS FOR INDECISIVENESS.

12. ON SAHARA ISSUE, SPAISH CONTINUE TO SHOW LITTLE INTEREST IN SEEKING SOLUTION THROUGH DIRECT BILATERAL NEGOTIATIONS WITH GOM. US ARMS SALES TO MOROCCO, WHICH CONTINUES TO RANKLE SPANISH MILITARY IN PARTICULAR, REMAIN IRRITANT IN US-SPANISH RELATIONS, THOUGH PALLIATED SOMEWHAT BY STRONG US REASSURANCES IN FEB OF NERTRALITY IN PRESIDIO DISPUTE.

13. SPAIN'S METICULOUS POLICY OF CORRECT AND NON-PROVOCATIVE RELATIONS WITH PORTUGUESE REVOLUTIONARY REGIME WAS SORELY TESTED BY EVENTS NEXT DOOR DURING QUARTER, THOUGH IT SEEM TO HAVE PASSED TEST. SPANISH SCRUPULOUSLY ISOLATED GENERAL SPINOLA AND HIS FELLOW FUGITIVES FOLLOWING ABORTIVE COUP, SOUGHT TO MAKE THEIR STAY BRIEF AS POSSIBLE, AND WERE VISIBLY RELIEVED WHEN THEY DEPARTED. SPANISH HAVE CONTINUED TO DEAL WITH SUCH INCIDENTS AS HOSTILE RADIO PROPAGANDA ORIGINATING IN PORTUGAL QUIETLY THROUGH DIPLOMATIC CHANNELS. SPANISH SEE PROOF THAT NON-INTERFERENCE POLICY HAS BEEN EFFECTIVE IN PUBLIC AND PRIVATE STATEMENTS OF PORTUGUESE LEADERS RECOGNIZING SPAIN'S CORRECTBEHAVIOR AND IN FACT THAT PORTUGUESE SPOKESMAN SPECIFICALLY EXONERATED GOS OF ANY INVOLVEMENT IN ALLEGED PLOTTING BY EXILE PORTUGUESE LIBERATION ARMY.

14. BUT WHILE RELATIONS COOLY CORRECT AT OFFICIAL LEVEL, PORTUGUESE DOMESTIC TURBULENCE, WHICH AT TIMES AFFECTS SPECIFIC SPANISH CITIZENS OR INTERESTS, SUCH AS

SEIGE OF CDS CONVENTION IN OPORTO, NATIONALIZATION OF BANKS AND HARASSMENT OF BUSINESSMEN, HAS FURTHER ALARMED INFLUENTIAL CONSERVATIVE AND MODERATE SECTORS OF SPANISH PUBLIC OPINION. WHILE TOP-LEVEL GOS SPOKESMEN HAVE GIVEN PUBLIC ASSUREANCES THAT SPAIN'S PROGRAM OF POLITICAL LIBERALIZATION IS GOING FORWARD AS PLANNEDN THERE ARE AUTHENTICATIVE INDICATIONS THAT CONCERN OVER CONFIDENTIAL

PAGE 05 MADRID 02659 02 OF 02 181705Z

PORTUGAL HAS HAD SOME INHIBITING EFFECT, DAMPENING ARIAS GOVERNMENT'S ENTHUSIASM FOR TAKING RISKS DOMESTICALLY AND REINFORCING CLIMATE OF GREATER GOVERNMENT FIRMNESS TOWARD PRESS, PUBLIC, AND LABOR DISSENT.

15. AFTER FIVE SESSIONS OF BASE NEGOTIATIONS WITH US, GOS APPEARS CONVINCED THAT BILATERAL US SECURITY GUARANTEE IS NOT OBTAINABLE AND HAS NOW SWITCHED TO REQUIREMENT FOR CLOSE LINK WITH NATO. GOS NEGOTIATORS ARE LINKING LEVEL OF US FACILITIES IN SPAIN TO DEGREE TO WHICH SPAIN IS SATISFIED ON THIS ISSUE. BUT SPANISH ALSO STRESSES THAT WHILE LEVEL OF FACILITIES WILL DEPEND ON SATISFACTION ON ABOVE, SPANISH INTERESTS REQUIRE CONTINUAL DEFENSE RELATIONSHIP WITH US.

16. ECONOMIC TREANDS. THE REDUCED GROWTH RATE AT WHICH SPAIN FINISHED 1974 CONTINUED THROUGH FIRST QUARTER 1975 ACCOMPANIED BY GROWING PROBLEMS OF UNEMPLOYMENT, INFLATION AND DECLINING FOREIGN RESERVES. WHETHER RECESSION HAS BOTTOMED OUT IS UNCLEAR, BUT ON BASIS OF EVIDENCE TO DATE, EARLIER PREDICTION OF 2-3 PERCENT INCREASE IN GNP FOR 1975 REMAINS VALID. UNEMPLOYMENT WHICH IS OFFICIALLY SHOWN AT JUST OVER 2 PERCENT IS PROBABLY CLOSER TO TWICE THAT AND CAN BE EXPECTED TO REMAIN MAJOR PROBLEM IN EYES OF GOS, PARTICULARLY GIVEN DECLINGING JOB OPPORTUNITIES FOR SPANISH EMIGRANTS.

17. THERE IS GROWING CONCERN IN GOS OVER INFLATION. COST OF LIBING FOR FIRST TWO MONTHS ROSE 2.3 PERCENT VS 0.9 PERCENT IN 1974 AND IS NOW RUNNING AT ANNUAL RATE IN EXCESS OF 20 PERCENT. BUT BASED ON MEASURES ANNOUNCED FIRST WEEK OF APRIL, GOS STILL NOT READY TO ADOPT POLICY TO REDUCE INFLATION SIGNIFICANTLY IF IT MEANS FURTHER CURTAILMENT OF PRESENT LOW GROWTH RATE. MEASURES TAKEN DO INCLUDE EXTENSION AND BROADENING OF PRICE CONTROLS AND CERTAIN MORE BASIC ANTI-INFLATIONARY MEASURES BUT AT SAME TIME ESTABLISH WAGE GUIDELINES OF UP TO 3 PERCENT ABOVE COST OF LIVING INCREASES, ENSURING THAT NEW WAGE PACKAGES FOR REST OF 1975 WILL PROVIDE FOR 20-25 PERCENT INCREASES. CONFIDENTIAL



PAGE 06 MADRID 02659 02 OF 02 181705Z

THIS WILL BE LESS THAN THE AVERAGE INCREASES OF RECENT MONTHS, BUT STILL INFLATIONARY. OF FURTHER CONCERN IS BALANCE OF PAYMENTS PICTURE WHERE RESERVES DECLINED SOME \$300 MILLION IN JAN-FEB AND WOULD HAVE DROPPED FURTHER \$260 MILLION IN MARCH HAD GOS NOT UTILIZED \$370 MILLION 1974 IMF OIL FACILITY AUTHORIZATION. RESERVES AT END OF MARCH WERE \$5.8 BILLION. ON POSITIVE SIDE, TOURIST BOOKINGS HAVE SO FAR BEEN SURPRISINGLY GOOD.

18. FIRST QUARTER 1975 ALSO SAW DECISION BY GENERAL MOTORS NOT TO TAKEOVER BRITISH-LEYLAND OPERATIONS. THIS DUE TO LEAST IN PART TO WHAT GM CONSIDERED EXCESSIVE GOS DEMANDS. LOCAL PRESS REACTION TO FAILURE SO FAR TO INCLUDE SPAIN AMONG COUNTRIES GRANTED GSP WAS STRONG, ALTHOUGH SOMEWHAT TEMPERED BY BELIEF FINAL DECISION NOT YET MADE.  
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NATO  
USMISSIO  
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